

If the federal benchmark calculated based on the size of the current levels of CCL and USF, is not low enough to satisfy the Commission's determination of "affordability," the Commission can lower the benchmark to an appropriate level and recover the additional amounts needed to fund that benchmark by increasing the surcharge on interstate revenues.

The Act contemplates that both the federal government and the state governments have a role in providing for universal service. In fact, the requirement that these issues be considered by the Joint Board³⁵ is a recognition of the interplay between the two jurisdictions. The state commissions will need to ensure that any money disbursed by the federal fund is appropriately accounted for within the state. This may mean a reduction in any amounts owed to the carrier under the state universal service fund, or could mean that intrastate rates must be adjusted to ensure overall revenue neutrality.

In California, once the federal fund is in place, as we have outlined above, the state fund would cover the necessary subsidy between the price charged and the federal benchmark level or the cost proxy value, whichever is less. That subsidy would be recovered in accordance with the state universal service fund. The two jurisdictions would then be working in tandem to ensure necessary and sufficient recovery of the subsidy.

We request that the federal benchmark become the standard for ensuring that rates are reasonably comparable.³⁶ Obviously, the Act could not intend that local exchange rates be identical throughout the country. Reasonable comparability must mean rates that are within

³⁵ 47 U.S.C. §254(a)(1).

³⁶ 47 U.S.C. §254(b)(3); NPRM at 6, 25.

proportion to their cost. The federal benchmark will set the level above which a carrier can seek federal assistance, and will therefore promote just, reasonable, and affordable rates.³⁷

The Commission notes that Section 254(i) provides that the Commission and the states have powers under the Act to ensure affordability and reasonable comparability.³⁸ Such a charter, however, will be difficult at best. Traditionally, state commissions set rates for basic service that are based on affordability. Even within California, prices for basic service vary widely. For example, while our prescribed rate for flat rated residential service in our territory is \$11.25 (plus SLC), across the street in GTE territory, the prescribed flat rated residential service is \$17.25 (plus SLC). Rather than undertaking a separate review of affordability, the Commission should require states to continue to determine the levels of affordability applicable to prices within the state, and ensure that a reasonableness standard is met.

E. All Providers Should Contribute To The Fund

The Act requires that “[a]ll providers of telecommunications services should make an equitable and nondiscriminatory contribution to the preservation and advancement of universal service.”³⁹ As the Commission notes in paragraph 119 of the NPRM, it is empowered under the Act to impose universal service support requirements on more than just carriers. We believe the Commission should seek support from the broadest possible range of providers in

³⁷ In accordance with section 254(b)(1).

³⁸ NPRM at 25.

³⁹ 47 U.S.C. §254 (b)(4); NPRM at 3.

order to comport with the legislative directive that “Consumers in all regions of the Nation...should have access to telecommunications and information services...”⁴⁰

Not only traditional carriers are involved in and benefit from this goal. It must include competitively neutral support from all providers, including information service providers, interexchange carriers, competitive access providers, commercial mobile radio service providers, etc. No telecommunications provider should either get a free ride or end up disproportionately footing the bill for a societal goal. The federal fund should be collected as a surcharge upon a provider’s interstate revenues. We would support an approach similar to that used for Telecommunications Relay Service funding

V. LOW-INCOME SUPPORT

We endorse the Commission’s goal of increasing subscribership in low-income communities. Our comments in Docket 95-115 outline the improvements and programs we have undertaken to increase subscribership levels. Those comments are attached here as Appendix E. Our approach has been to develop products, services and marketing strategies specifically for our low-income market segment.

We do not believe, however, that the Commission should mandate programs to increase subscribership. Conditions vary greatly from state to state. Multiple factors, such as linguistic needs, income levels, and geography influence subscribership levels.

⁴⁰ 47 U.S.C. §254 (b)(3).

The Commission seeks comment on what different or additional services should be designated for low-income consumers.⁴¹ Our definition of universal service is stated earlier in section IV (C). We do support the Commission's proposal that information regarding telephone service, discounts for low-income households and repair service is needed by consumers and should be part of the universal service definition.⁴²

We believe that access to emergency services is vital to all Americans. Our Quick Dial Tone (QDT or warm dial tone) provides non-customers with access to 911, both outgoing and incoming emergency calls, 800 services and the Pacific Bell business office.

We also offer, at no charge, toll-restricted service to customers who are at risk of dropping off the network. We believe that this type of service could significantly increase subscribership rates in the long-term. We do not, however, support toll restricted service as a part of the universal service definition. It is a product designed for a particular market segment and is not subscribed to by a majority of our customers.⁴³

We do not support changing the existing federal mechanisms for Lifeline or Link-Up America service. The Act specifically preserves these programs.⁴⁴ They are examples of explicit subsidies funded by all beneficiaries. California's Universal Lifeline Telephone Service ("ULTS") is one of the most highly utilized in the country. Qualifying customers are offered basic residential service at a 50% discount. Other benefits are an installation rate of \$10,

⁴¹ NPRM at 50.

⁴² NPRM at 53.

⁴³ 47 U.S.C. §254(c)(1)(A) & (B).

⁴⁴ 47 U.S.C. §254(j).

compared to \$34.75 for regular residential customers, and waiver of the \$3.50 SLC.

Approximately 2.4 million of our customers benefit from the ULTS program.

The Commission seeks comment on how to determine what is affordable.⁴⁵

Affordability is a difficult concept on which to base policy. We have found, through research we recently funded, that affordability is not necessarily correlated with income level. Instead, affordability is a very personal decision based on many different factors for each individual. Therefore, implementing policies based on some benchmark affordability will probably not be effective in carrying out the Act's goals. Attached as Appendix F is a summary of the key results of our *Affordability of Telephone Service* Study performed by Field Research Corporation.⁴⁶

We do not believe that the Commission should mandate access to certain services as part of universal service. Instead, it should permit carriers to continue to tailor their offerings to the needs of the customer base. Carriers have an incentive to grow their customer base and to keep subscribers on the network. Government intervention is not necessary at this time.

VI. OUR UNIVERSAL SERVICE PLAN MEETS THE ACT'S GUIDELINES

Adapting the California model to the federal universal service goal will meet the requirements set forward in the Act.⁴⁷ Our proposal for a high-cost fund, and our education and

⁴⁵ NPRM at 25.

⁴⁶ The research was jointly funded by Pacific Bell and GTE, and was commissioned at the request of the California Public Utilities Commission.

⁴⁷ See 47 U.S.C. §254(b).

health care access programs (based on Education First) will advance the goals and principles set forth in the Act.

Our plans will enable the Commission to require carriers to offer “quality services at just, reasonable and affordable rates” while promoting access to advanced services. We believe that a surcharge on the interstate revenues of all providers will ensure an equitable and nondiscriminatory contribution mechanism. Also, the payout from the funds will be based on objective guidelines by the Commission, ensuring specific and predictable mechanisms to support universal service.

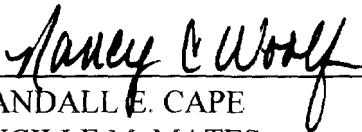
VII. CONCLUSION

We urge the Joint Board to consider the views and proposals contained herein in order to implement, in the spirit of a de-regulatory approach contemplated by Congress, the

concepts of universal service to all Americans and access to technology by educational institutions and rural health care providers.

Respectfully submitted,

PACIFIC TELESIS GROUP



RANDALL E. CAPE
LUCILLE M. MATES
NANCY C. WOOLF

140 New Montgomery Street, Rm. 1523
San Francisco, California 94105
(415) 542-7657

MARGARET E. GARBER

1275 Pennsylvania Avenue, N.W.
Washington, D.C. 20004
(202) 383-6472

Its Attorneys

Date: April 12, 1996

Pacific Telesis Group

List of Appendices

Appendix A	List of collaborative ventures
Appendix B	Knowledge Network tariff
Appendix C	Cal. P.U.C. D.95-07-050 -- Universal Service proposed rules
Appendix D	Cost Proxy Model description
Appendix E	FCC Docket 95-115 -- Customer Subscribership comments
Appendix F	Affordability Study -- Key Findings

Appendix A

Pacific Telesis Group
Collaborations for
Life Long Learning Improvement

Alliance for Converging Technologies

- An alliance of 30 North American entities pursuing “best practices” in Networked Interactive Multimedia (NIM), including education

Banking Skill Standards

- A joint business/education project for skill development

Bay Area Multimedia Partnership

- A San Francisco Bay Area-based effort to develop multimedia capabilities for learning and business development

Bremen University Study Team: The Social Shaping of Information

Highways – Comparing The NII and the EU Action Plan

- An international team researching and comparing approaches to the Global Information Infrastructure (GII), with a focus on social issues such as education and learning.

California Business Roundtable

- A non-partisan organization of corporate leaders focusing on job retention/growth and education restructuring

California Business roundtable – Education Task Force

- A Multi-dimensional team focusing on skill development in key career-entry positions in California

California Council on Science and Technology

- Brings together those who create knowledge with those who create economic opportunity and those who create policy, to utilize science and technology

California Education Infrastructure Funding Forum

- Developed funding strategies for educational technologies

California Economic Strategy Panel

- A collaborative group of 15 members and 17 advisors creating an ongoing economic analysis and improvement mechanism, with an emphasis on skills development and education

California Education Council for Technology in Learning

- An education-led group, including industry participants, seeking actions to help deploy technology in the learning environment

California High School Task Force

- A 70-member task force to provide policy direction for high school reform

California School Library Association

- A key activity of this group supports funding of school libraries via a “check-off” donation on the state tax forms

California Senate Bill 600 Task Force on Telecommunications Infrastructure**California for K-12 Schools and Public Libraries**

- A legislative chartered group including educators, librarians, regulators, consumer groups, and industry who created a significant report and the “California Life Long Learning” (CALLL) vision.

Commission on Innovations - Board of Governors of the California**Community Colleges**

- An independent citizens’ council designed to create new ways to tackle education issues; they created “Choosing the Future”

Computer Using Educators

- “CUE” is a computer “user group” for educators of all grades and skill levels

Corporation for National Research Initiatives: Cross-Industry Working Team

- Known as the “XIWT” this group analyzes NII matters, fostering skills development and cooperative education regarding new technologies

Detwiler Foundation

- A cooperative effort to refurbish and upgrade used computers and place them in classrooms

Industry Council for Technology and Learning

- A collaborative industry and education communities effort supporting legislative and regulatory actions for learning

Industry Education council of California

- The IECC connects people from business, education, government, labor and the community to improve K-12 education

Industry Skill Standards Project

- A project of the California Business roundtable, focusing on the link between world-class education/training and economic development

Joint Venture Silicon Valley

- A model collaborative effort creating a community of Lifelong Learners and producers for the Information Age

Magnet Schools of America

- An association of unique schools across the country; in San Jose Magnet Schools are transformed via computing and networking

National Coordinating committee on Technology in Education and Training

- NCCTET is a coalition of educational technology groups collaborating for ed-tech policies

National Information Infrastructure Advisory Council

- The NIIAC developed at least 3 key policy documents impacting views on Lifelong Learning (Common Ground, Kickstart)

NETDAY '96

- A grass-roots effort to wire schools to the Information Infrastructure

Project California

- A collaborative effort to re-train technology workers for advanced transportation and telecommunications

Smart Valley

- A coalition in the Silicon Valley aimed at removing barriers to the deployment of technologies and approaches which reap the benefits of info technology in every day life

United States Distance Learning Association

- A national group educating others about the benefits, and pitfalls, of networked learning

Appendix B

ALJ/JSW/sid

Decision 95-07-050 July 19, 1995

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Rulemaking on the Commission's Own)
Motion into Universal Service and to)
Comply with the Mandates of Assembly)
Bill 3643.)

R.95-01-020
(Filed January 24, 1995)

Investigation on the Commission's)
Own Motion into Universal Service)
and to Comply with the Mandates of)
Assembly Bill 3643.)

I.95-01-021
(Filed January 24, 1995)

I N D E X

<u>Subject</u>	<u>Page</u>
INTERIM OPINION	2
I. Introduction	2
II. Background	3
III. The Concept of Universal Service	7
IV. The Goals of Universal Service	9
A. Background	9
B. Positions of the Parties	10
C. Discussion	13
V. Basic Service	15
A. Introduction	15
B. Basic Service Definition	15
1. Introduction	15
2. Positions of the Parties	16
3. Discussion	17
C. Review of the Basic Service Definition	20
1. Introduction	20
2. Positions of the Parties	20
3. Discussion	22
D. Promoting Access to and the Deployment of Advanced Technology	23
1. Introduction	23
2. Positions of the Parties	23
3. Discussion	25
VI. Subsidy Mechanism Proposals	28
A. Introduction	28
B. Is There a Need to Revise the Existing Universal Service Mechanisms?	29
1. Introduction	29
2. Positions of the Parties	29
3. Discussion	34
C. The Mechanism for Funding High Cost Areas	36
1. Proposals for Funding High Cost Areas	36
a. Introduction	36
b. Positions of the Parties	38
c. Discussion	45

I N D E X

<u>Subject</u>	<u>Page</u>
2. Cost Studies to Determine the Subsidy Amount	49
a. Introduction	49
b. Geographic Study Areas	50
c. Formulation of the Cost Studies	52
d. Determining High Cost GSAs	55
3. Determining Who the COLR Should Be	56
4. How the Surcharge Should be Collected	60
a. Introduction	60
b. Positions of the Parties	61
c. Discussion	63
D. The Mechanism for Funding Low Income Customers	66
VII. Consumer Information	69
A. Introduction	69
B. Positions of the Parties	70
C. Discussion	72
VIII. Recovery of LEC's Investment	74
A. Introduction	74
B. Positions of the Parties	74
C. Discussion	75
IX. Procedural Process	77
Findings of Fact	78
Conclusions of Law	84
INTERIM ORDER	88
APPENDIX A - Proposed Universal Service Rules	

INTERIM OPINION

I. Introduction

California's telecommunications markets are undergoing tremendous technological and regulatory changes. In addition to the planned opening of local exchange markets to competition, new technologies and declining costs will provide traditional providers and new entrants with the opportunities to offer new telecommunications products and services.

As we move toward open competition, there will no longer be a monopoly provider. Instead, there will be multiple companies competing for the same customers. This has important ramifications for universal service, the concept that all members of society have access to telephone service. The current regulatory structures affecting universal service will need to reflect the introduction of competitive forces. Those companies who offer local exchange services in this competitive environment will have opportunities as well as obligations associated with universal service.

The purpose of today's decision is to issue a set of proposed rules pertaining to universal service responsibilities in a competitive environment. These proposed rules outline the Commission's commitment to maintaining affordable, high quality service within a competitive environment. This competitive marketplace will foster economic growth and lead to an improved telecommunications infrastructure for California.

We emphasize that these are only proposed rules, and that a final set of rules will be developed after public hearings are held, comments regarding the proposed rules are filed, and after evidentiary hearings, if needed, are held, or legislative changes are made. These draft rules are intended to provide a starting point; we find that parties are better able to structure their comments if they have rules in front of them to which they can react. The draft rules in Appendix A reflect some initial

preferences, which may change significantly before we issue the final rules.

II. Background

The issuance of these draft rules is part of our efforts to open all telecommunications markets in California to competition by January 1, 1997. The groundwork for a competitive marketplace was laid in our November, 1993 report to the Governor entitled Enhancing California's Competitive Strength: A Strategy For Telecommunications Infrastructure (Infrastructure Report), and Assembly Bill (AB) 1289 (Statutes 1993, Chapter 1274).¹ The California Legislature subsequently passed AB 3606 (Statutes 1994, Chapter 1260), which was enacted into law on January 1, 1995. Among other things, AB 3606 added PU Code § 709.5 to express the intent of the Legislature that all telecommunications markets be opened to competition no later than January 1, 1997.

In September 1994, the Commission issued Decision (D.) 94-09-065 which opened the intraLATA toll markets to competition beginning January 1, 1995.

In December 1994, we adopted a plan to facilitate the opening of all local exchange telecommunications markets to competition (D.94-12-053). That decision recognized the coordination required for addressing the technical and policy

¹ AB 1289 amended Public Utilities (PU) Code § 709 and added PU Code § 882. AB 1289 made a legislative finding and declaration that a state of the art communications infrastructure would promote economic growth, create jobs, and provide social benefits to all of California. In order to implement a strategy of ensuring that investment in the infrastructure would occur, the legislation directed the Commission to pursue action that would ensure that advanced telecommunications services are made available as ubiquitously and economically as possible.

issues related to local competition. Issues were grouped into three subject areas: technical issues, such as the unbundling of network components, which are being managed by Commissioner Duque, local competition which are being managed by Commissioner Conlon, and consumer protections and regulatory streamlining, which include universal service issues, which are being managed by Commissioner Knight. Staff teams were formed to develop proposed rules in each of the three areas. The President of the Commission is responsible for ensuring that the overall process stays on track.

In April 1995, we issued the Local Competition proceeding, Order Instituting Rulemaking (OIR or R.) 95-04-043 and Order Instituting Investigation (OII or I.) 95-04-044. That OIR/OII proposed interim local exchange competition rules.

In R.95-01-020 and I.95-01-021, which were combined and filed on January 24, 1995, the Commission opened this proceeding to develop rules to pursue universal service goals in a competitive telecommunications environment. Part of the impetus for the universal service OIR/OII was AB 3643 (Statutes 1994, Chapter 278), which became effective January 1, 1995. The universal service OIR/OII set forth five objectives. They are:

1. Define the goals of universal service given the new technologies and increasingly competitive markets, with emphasis on the role of basic service in education, health care, and in the workplace.
2. Develop a process to periodically review and revise the definition of universal service to reflect new technology and markets.
3. Delineate the subsidy support needed to maintain universal service in the new competitive market.
4. Design and recommend equitable and broad based subsidy support for universal service in freely competitive markets.
5. Address the issues of "carrier of last resort" and "franchise obligations."

The universal service OIR/OII solicited comments from interested parties as to how to best meet the above universal service objectives. Eighteen different comments were filed by commenting parties in March 1995.²

On or about June 23, 1995, the California Department of Consumer Affairs (DCA) filed a motion to accept the late filing of its comments and recommendations to the universal service OIR/OII. DCA's motion states that it has no full time staff assigned to

² The following entities filed written comments: AirTouch Cellular (and its affiliates: Los Angeles SMSA Limited Partnership, Sacramento-Valley Limited Partnership, and Modoc RSA Limited Partnership); California Alarm Association; Cellular Carriers Association of California; Citizens Utilities Company (on behalf of Citizens Utilities Company of California, Electric Lightwave, Inc., and Citizens Telecommunications Company); City of Los Angeles; Coalition of consumers, interexchange carriers and alternative access providers (AT&T Communications of California, Inc., California Association of Long Distance Telephone Companies, California Cable Television Association, California Association of Long Distance, ICG Access Services, Inc., MCI Telecommunications, Metropolitan Fiber Systems Communications Company, Inc., Sprint, Teleport Communications Group, Time Warner AxS of California, and Toward Utility Rate Normalization (TURN)); Contel of California, Inc.; Division of Ratepayer Advocates; GTE California Incorporated; McCaw Cellular Communications, Inc.; MFS Communications Corporation; Pacific Bell; Public Advocates, Inc. (on behalf of Southern Christian Leadership Conference, National Council of La Raza, Korean Youth and Community Center, Filipinos For Affirmative Action; Filipino Civil Rights Advocates.); Roseville Telephone Company; the small LECs (CP National, Evans Telephone Company, GTE West Coast Incorporated, Kerman Telephone Company, Pinnacles Telephone Company, the Siskiyou Telephone Company, Tuolumne Telephone Company, The Volcano Telephone Company); the Smaller Independent LECs (Calaveras Telephone Company, California-Oregon Telephone Co., Ducor Telephone Company, Foresthill Telephone Co., Happy Valley Telephone Company, Hornitos Telephone Company, The Ponderosa Telephone Co., Sierra Telephone Company, Inc., and Winterhaven Telephone Co.); Telecommunications Education Trust; and Utility Consumers' Action Network. MCI Telecommunications, Teleport Communications Group, and TURN also attached separate statements regarding certain issues to the Coalition's comments.

Commission matters, and that it participates in Commission proceedings on a highly selective basis. In mid-February 1995, DCA began participating in the local competition OIR/OII. Through that effort, DCA gained an awareness of the importance of the other related proceedings. DCA believes that its comments and insights have been welcomed by the various parties in the local competition OIR/OII, and that its comments in this proceeding would be of assistance as well.

We will grant DCA's motion to accept the late filing of its June 21, 1995 comments and recommendations on universal service. AB 3643 stated that the universal service proceeding shall include public hearings that encourage participation by a broad and diverse range of interests, including such state agencies as the State and Consumer Services Agency, of which DCA is a part.

In proposing today's draft rules, we are cognizant of the relationship that other Commission proceedings have with universal service. Many of the parties have emphasized that in their comments. Our framework for achieving our universal service goals will, to some extent, depend on the work that is to be completed in the other Commission proceedings.

We are also aware that the Federal Communications Commission (FCC) has opened a proceeding to review its Universal Service Fund (USF). The changes the FCC makes to the USF could affect the amount of money that many California LECs collect from the fund. We will monitor the FCC's proceeding and will evaluate how those actions may affect our own. The FCC may also open a more comprehensive proceeding on universal service policy in the near future. We believe that it is likely that any FCC action on universal service policy will occur after this Commission has already adopted a revised universal service plan for California. In the event the FCC does open such a proceeding, we will evaluate whatever results, to determine if our universal service plans need to be revised.

Our task in this proceeding is to determine the goals of universal service in a competitive environment, and what, if any, funding mechanisms will be needed in a competitive market.

III. The Concept of Universal Service

To put this proceeding into perspective, it is useful to first discuss what is meant by the term universal service. Universal service means essentially two things. First, that a minimum level of telecommunication services is available to virtually everyone in the state, i.e., there is a ubiquitous presence of telecommunications services throughout the state. Second, universal service means that the rates for such services remain reasonable.

The latter meaning of universal service has resulted in the development of various kinds of universal service funding programs.³ However, these programs must be evaluated and revised, if necessary, to promote universal service in a competitive environment.

The first funding mechanism is the California High Cost Fund (CHCF). (PU Code § 739.3) The CHCF allows high cost companies, such as the small and medium size local exchange carriers (LECs), to receive funds to recover the relatively high network costs of providing service in areas of the state that produce less revenue. This fund ensures that both residential and business customers in high cost service areas of the smaller size LECs have access to telephone services at reasonable prices. The funds are used to keep both residential and business rates priced

³ Another universal service related program is the Deaf and Disabled Telecommunications Program. However, at the present time, this program does not appear to be in need of a reevaluation.

below the actual cost of providing service.⁴ Because rates are averaged between high and low cost areas, and profitable and less profitable areas, Pacific Bell (Pacific) and GTE California, Incorporated (GTEC), whose service territories are quite large, do not receive funds from the CHCF. Instead, their high cost areas are internally subsidized by their more profitable exchanges, subsidies between product lines, and other sources of revenues.

The second funding mechanism is the Universal Lifeline Telephone Service (ULTS) program. The ULTS program was created in response to the Moore Universal Telephone Service Act which became law in September 1983.⁵ (PU Code § 871 et seq., General Order 153.) The ULTS program assures that income eligible households have access to telephone services at a fixed and affordable price by offering these customers basic exchange services at substantially lower prices. The ULTS program is a statewide explicit subsidy that is available to the LEC serving the particular local exchange.⁶

Associated with the concept of the ubiquitous presence of telecommunications services, and reasonable rates, is the "basic service" or "basic exchange service" concept. This is the idea that a certain minimum level of service should be made available to everyone as part of universal service. Basic service forms the basis upon which subsidies are derived, and which services are kept at reasonable rates.

⁴ The current CHCF subsidy is approximately \$48 million.

⁵ Prior to the enactment of the Moore Universal Telephone Service Act, Pacific and GTEC had "lifeline service" programs in place. Those programs offered discounted measured rate service. (See 14 CPUC2d 616, 624; 77 CPUC 117, 184; and 69 CPUC 601, 676.)

⁶ The current ULTS subsidy is approximately \$360 million.

IV. The Goals of Universal Service

A. Background

In the simplest terms, universal service is the idea that all people have access to those telecommunications services necessary for participation in contemporary society. Most people would agree that this means a telephone in every home.⁷ Dispute may arise over whether the telephone should, as part of universal service, do more than the bare minimum of provide dial tone, and provide access to free operator and emergency services.

Universal service has evolved over time. In the early days of the industry, universal service meant access to a telephone, perhaps not even in one's home. It then evolved to mean a phone in one's home, but access to a party line. Eventually, it evolved to mean a single party line in the home.

This evolution can be explained in economic terms. When a new telephone product or service is introduced, the marginal cost of providing an additional unit is frequently above average cost. In order to deploy the service, capital outlays must occur. Business will recover those costs from customers. As the service becomes more widely deployed, marginal cost drops. When marginal cost falls below average cost, the business might consider making it a "standard option." For example, many Californians probably remember when using a touch tone phone meant paying an additional charge. This is because the utility needed to install switches that could accommodate touch tone technology. As the switches throughout the utilities' systems were changed over (something that happens with regularity in the telecommunications industry today), touch tone capability became commonplace. At the same time, with

⁷ Universal service is generally recognized as pertaining to residential customers.

the opening up of AT&T's monopoly on consumer telephone equipment, consumers were able to purchase touch tone telephones, increasing demand even more. Eventually, the Legislature directed that touch tone became part of basic service. (PU Code § 2882.)

Not every service becomes part of basic service. Take, for example, call waiting. While most switches in California today can provide call waiting, the phone company still charges for the service. It is not considered necessary to participate in society, and, more important, is not wanted by all consumers.

Despite the recognized benefits to society of ensuring that all people have telephone service, there are still some people for whom the cost of basic service is a financial obstacle. As described earlier, the Legislature therefore has mandated that all customers except low-income residential customers pay into a fund that subsidizes basic telephone service for low-income individuals. Similarly, there are some areas where the marginal cost of building and maintaining a telephone network exceeds the average cost. The CHCF exists to ensure that people in these areas still have service that is affordable.

B. Positions of the Parties

In the OIR/OII that launched this proceeding, we asked parties to comment on the universal service goals stated in the Infrastructure Report and AB 3643. Those goals were summarized in the OIR/OII:

- Guarantee that high-quality basic telecommunications services remain available and affordable to all Californians regardless of linguistic, cultural, ethnic, physical, geographic, or income considerations;
- Progressively expand the definition of basic service as technologies advance to avoid information rich and information poor stratification;